FISCAL NOTE

Bill #:	SB0184	**Title:**	Local option sales tax
Primary Sponsor:	Mangan, J	**Status:**	Second Reading - Revised

Sponsor signature Date David Ewer, Budget Director Date

Fiscal Summary

	FY 2006 Difference	FY 2007 Difference
Expenditures:		
General Fund	$0	$0
Revenue:		
General Fund	$0	$0
Net Impact on General Fund Balance:	$0	$0

- ☒ Significant Local Gov. Impact
- ☐ Included in the Executive Budget
- ☐ Dedicated Revenue Form Attached
- ☒ Technical Concerns
- ☐ Significant Long-Term Impacts
- ☐ Needs to be included in HB 2

Fiscal Analysis

ASSUMPTIONS:

1. This bill would give all cities and counties the authority to levy a local option sales tax on luxury goods and services. Combined city and county tax rates in any location could not exceed 4%.
2. The revenue local governments would receive from adopting local option sales taxes would depend on how many jurisdictions adopted the tax, the tax rates they adopted, and the specific goods and services they taxed.
3. This bill gives a non-exclusive list of “luxury goods and services” and provides specific exemptions from the tax, but gives local governments wide latitude in choosing whether to tax other goods and services.
4. Sales of goods and services specifically listed as “luxury goods and services” are projected to be approximately $1.98 billion in FY 2005. If local options sales taxes with combined rates of 4% were adopted everywhere in the state, if all jurisdictions allowed merchants to retain 2% of tax collections as an administrative allowance, and if compliance were 95%, revenue collected by all jurisdictions together would be approximately $74 million (95% x 98% x 4% x $1.98 billion). If all jurisdictions adopted a 4% tax and chose to tax more goods and services the revenue would be more than $74 million. If not all jurisdictions imposed the tax or some imposed a tax of less than 4%, the revenue would be less than $74 million.
5. This bill would require 15% of revenue from the tax to be distributed to the region where the taxing entity is located and 10% to be distributed to the subregion where the taxing entity is located.

6. If local governments adopt the tax and use the proceeds to lower property tax mill levies, there could be a small increase in non-levy revenue for the state general fund and the university system. This is revenue that is not produced by mill levies but is distributed among taxing jurisdictions in proportion to the mills they levy at the location where the revenue is generated. If cities and counties reduced their mill levies, the state school and university mills would be a larger percentage of the total mill levies used to allocate some non-levy revenues. The increase in state revenue would be at most a few thousand dollars and would not occur until at least the fiscal year following local implementation of the sales tax. Thus, there is likely to be no effect on state revenue in the 2007 biennium.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:
See Assumptions 1 – 5.

This bill would allow existing resort communities and areas and the resort taxes they impose to remain in existence, but would require any new local sales taxes to be imposed under the provisions of this bill rather than the resort tax law.

LONG-RANGE IMPACTS:
None.

TECHNICAL NOTES:
1. Section 7(1) requires a portion of local option sales tax revenue to be allocated to the region and subregion where the entity imposing the tax is located. It also requires the region and subregion to redistribute this revenue. Section 7(4) gives a geographic definition of regions and subregions as groups of counties. However, the terms “region” and “subregion” do not refer to any governmental entity. It is not clear who will do this redistribution of revenue.